State of Alaska, Dept. of Revenue, Tax Division Oil and Gas Production Tax AS 43.55

Instructions to reserve and use Carryforward Annual Losses on the Oil and Gas Production Tax return after December 31, 2017

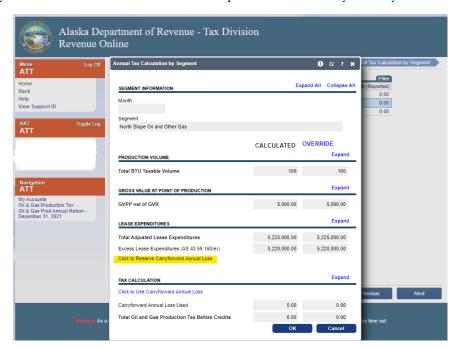
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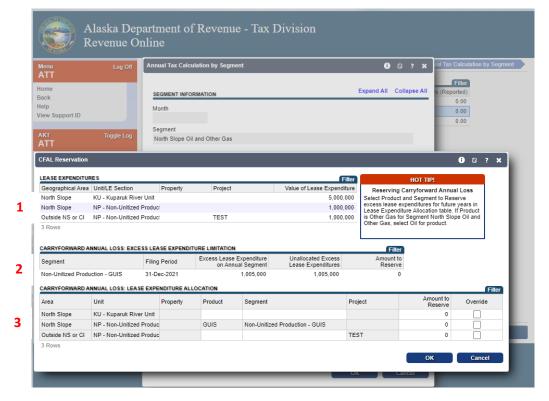
Disclaimer: The Oil and Gas Production Tax ("OGP") group provides this document to assist taxpayers with using the OGP return to reserve and use carryforward annual losses ("CFALs") under AS 43.55.165(1)-(0) after December 31, 2017. The data included in this document are only examples and do not include any taxpayer specific information. The OGP group does not provide tax advice or warrant or guarantee the accuracy of amounts without conducting an audit. This document is provided as a courtesy on how to use the functionality in the OGP return, and it is the taxpayer's responsibility to correctly calculate and pay taxes and interest under AS 43.05, AS 43.55, 15 AAC 05, and 15 AAC 55.

CFAL Reservation Process:

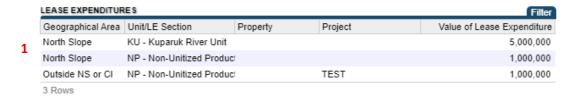
1. Taxpayers can reserve the value of their annual segment's excess lease expenditures under AS 43.55.160(e) using the "Click to Reserve Carryforward Annual Loss" hyperlink below the "Lease Expenditures" section of the segment's "Annual Tax Calculation by Segment" window within Tab 15 of the annual return. To be able to use CFALs in future periods, the taxpayer must reserve their excess lease expenditures for the year they are incurred.



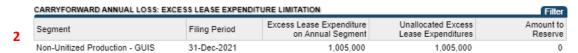
2. The hyperlink opens to the "CFAL Reservation" window.



- 3. The "CFAL Reservation" window has three tables: Lease Expenditures ("Table 1"), Carryforward Annual Loss: Excess Lease Expenditure Limitation ("Table 2"), and "Carryforward Annual Loss: Lease Expenditure Allocation" ("Table 3").
 - a) Table 1 provides the sum of lease expenditure type per Unit/LE Section reported on Tab 9. Lease Expenditures of the return.



b) Table 2 lists each annual segment from the taxpayer's return that has excess lease expenditures. The "Excess Lease Expenditure on Annual Segment" column pulls directly from each segment's annual excess lease expenditure field from Tab 15, Annual Tax Calculation by Segment. The "Unallocated Excess Lease Expenditures" and "Amount to Reserve" columns will update as values are entered into the "Amount to Reserve" field within Table 3.



The segments listed in this table are linked to the segments in Table 3. As segments are added to Table 3, Table 2 will update. As such, the taxpayer may not see any segments with available excess lease expenditures for a CFAL reservation until Table 3 has been updated.

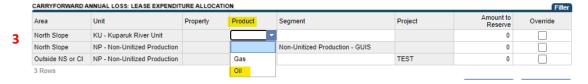
c) Table 3 is where the taxpayer will reserve their CFALs for excess lease expenditures. The "Area," "Unit," "Property," and "Project" columns are pre-populated based on the taxpayer's reported lease expenditures, segments, and lease expenditure projects (if applicable). For tax periods 2018 through 2021, any North Slope Gas Used in State ("GUIS") segments will pre-populate the "Product" and "Segment" for the taxpayer.



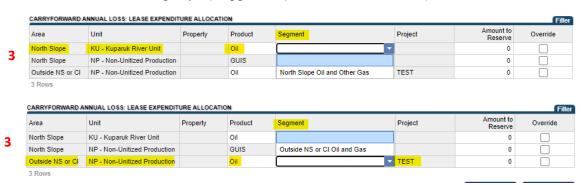
- 4. How to reserve excess lease expenditures:
 - a) Table 2 provides each segment's available excess lease expenditures that can be reserved as a carryforward annual loss for the filing period. To see all available segments, the "Product" and "Segment" lines within the Table 3 will need to be completed for each pre-populated row:
 - The "Product" and "Segment" are initially blank:



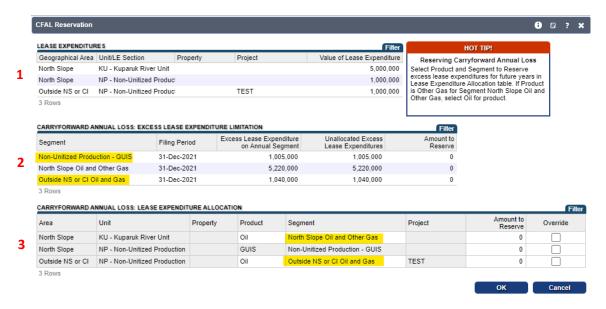
 First, a Product must be selected. In this example, oil is selected for the "blank" Kuparuk River and Non-Unitized Production units:



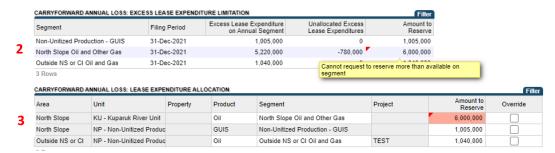
Once the Product is selected, the "Segment" drop-down list will then
populate with all available segments that match the selected "Area," "Unit,"
"Property" (if applicable), "Product," and "Project:"



Once the "Product" and "Segment' columns have been populated, Table 2 updates to include the two new segments added under rows 1 and 3 of Table 3:



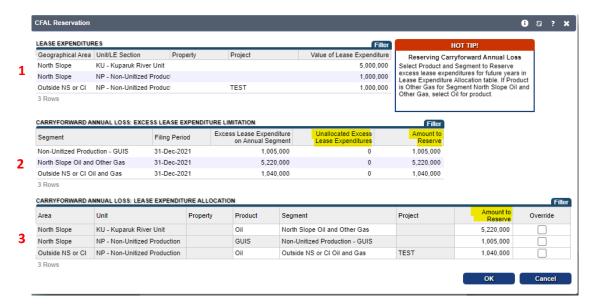
- b) There are limitations to the amount of lease expenditures that can be allocated to each segment:
 - The total "Amount to Reserve" for a segment cannot exceed the segment's excess lease expenditures.



- The "Amount to Reserve" for each unit cannot exceed the unit's lease expenditure value (from Table 1) plus the overhead allowance of 4.5% under 15 AAC 55.271 (this is a generic maximum value limitation).
- For CFALs that have already been reserved and used in future periods, the taxpayer is unable to reduce that CFAL's "Amount to Reserve" less than what was already used.



- c) The next step is to allocate the lease expenditures under the "Unallocated Excess Lease Expenditures" column in Table 2 to the "Amount to Reserve" column in Table 3. Using the "Unallocated Excess Lease Expenditure" field from Table 2 as a guide, the taxpayer will allocate their excess lease expenditures to the appropriate segment by entering an amount under the "Amount to Reserve" column in Table 3. The "Amount to Reserve" and "Unallocated Excess Lease Expenditures" columns in Table 2 will automatically update to reflect the reduction in unallocated excess lease expenditures.
 - For example, the below screenshot illustrates that \$5,220,000 was entered into the "Amount to Reserve" column in Table 3; Table 2 automatically updates to show that all available excess lease expenditures have been reserved for that combination of units, properties, products, and segments (i.e. North Slope Oil and Other Gas).



5. Once the annual return has been filed, the taxpayer can view their reserved CFALs in their OGP account by accessing their Credits then CFAL tabs. The CFALs are not Credits, but are tracked similarly in the tax system:



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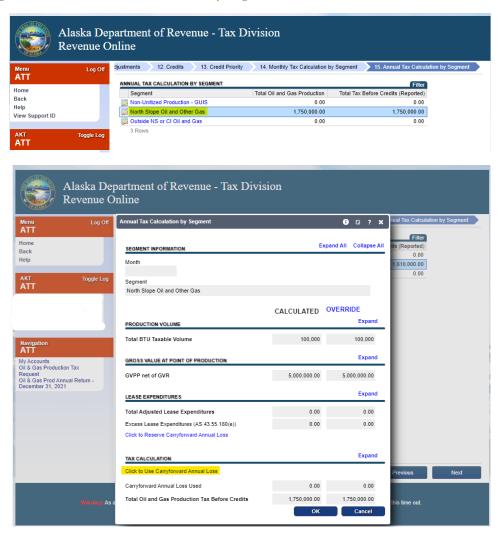
CFAL Usage Process:

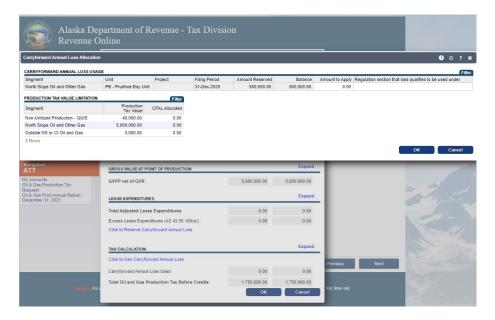
After a CFAL has been reserved, the taxpayer can use the CFAL to offset the production tax value ("PTV") for the segment in later filing periods.

These instructions are split into two sections: **CFAL Usage for 2018-2021 Annual Return Periods** and **CFAL Usage for Annual Return 2022 and Later Periods**. The 2022 annual return was updated to incorporate the gas tax calculation changes from 2014 SB 138, and a correction was made to allow the taxpayer to allocate their annual segment's CFAL usage to the segment's monthly tax calculation.

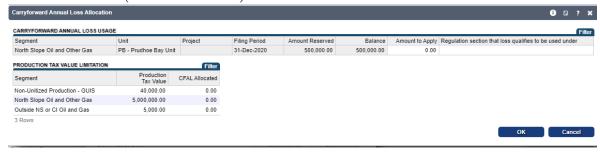
CFAL Usage for 2018-2021 Annual Return Filing Periods:

1. To use reserved CFALs toward a segment's annual PTV, the taxpayer will select the "Click to Use Carryforward Annual Loss" hyperlink below the "Tax Calculation" section of the segment's "Annual Tax Calculation by Segment" window.

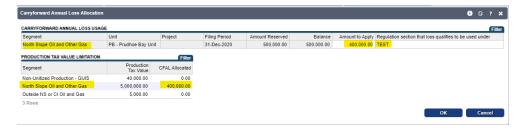




2. The "Carryforward Annual Loss Allocation" window for filing periods 2018 through 2021 has two sections: "Carryforward Annual Loss Usage" ("CFAL Usage") and "Production Tax Value Limitation" ("PTV Limitation").



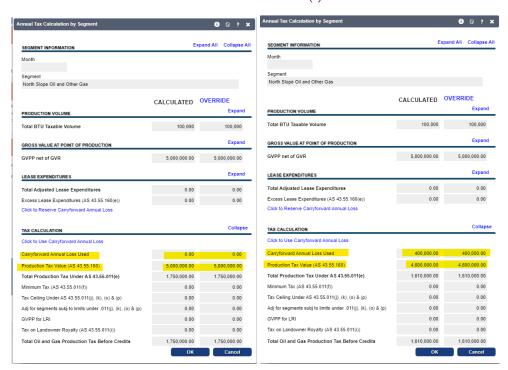
- a. The CFAL Usage table lists all reserved CFALs that may be used in the current filing period.
- b. The PTV Limitation table lists each segment's annual PTV and the amount of CFAL the taxpayer would like to apply towards that segment's PTV.
- 3. To apply a CFAL from the CFAL Usage table, enter a value in the "Amount to Apply" field. Then, enter the regulation section in which the CFAL qualifies.
 - a. In the example below, \$400,000 of the \$500,000 CFAL reserved from the 2020 filing period is selected to apply towards the North Slope Oil and Other Gas segment's PTV for this 2021 return. As the "Amount to Apply" value is added, note the PTV Limitation table updates.



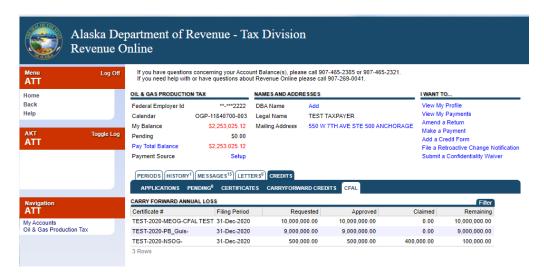
b. The CFAL's "Amount to Apply" is limited to the CFAL's "Balance" (provided in the CFAL Usage table) and the segment's annual PTV (provided in the PTV Limitation Annual table).



- 4. Once the CFAL Usage table has been completed, select "OK" to close the window. In the annual segment's Tax Calculation by Segment window, the "Carryforward Annual Loss Used" field updates to equal the amount of CFAL applied from the "CFAL Usage" table.
 - a. In the below example, these changes are reflected on the return on the right. The "Carryforward Annual Loss Used" field updates to reflect the \$400,000 applied of the North Slope Oil and Other Gas CFAL. The Production Tax Value (AS 43.55.160) field then updates to include the CFAL, reducing the segment's "Total Production Tax under AS 43.55.011(e)."



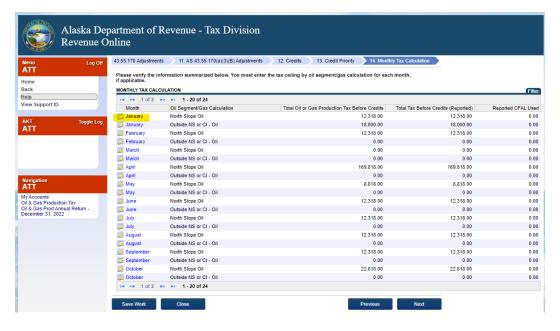
5. Once the annual return is filed, the CFAL table within the OGP > Credits > CFAL tab will update to reflect the \$400,000 usage ("Claimed") of the 2020 North Slope Oil and Other Gas reserved CFAL.



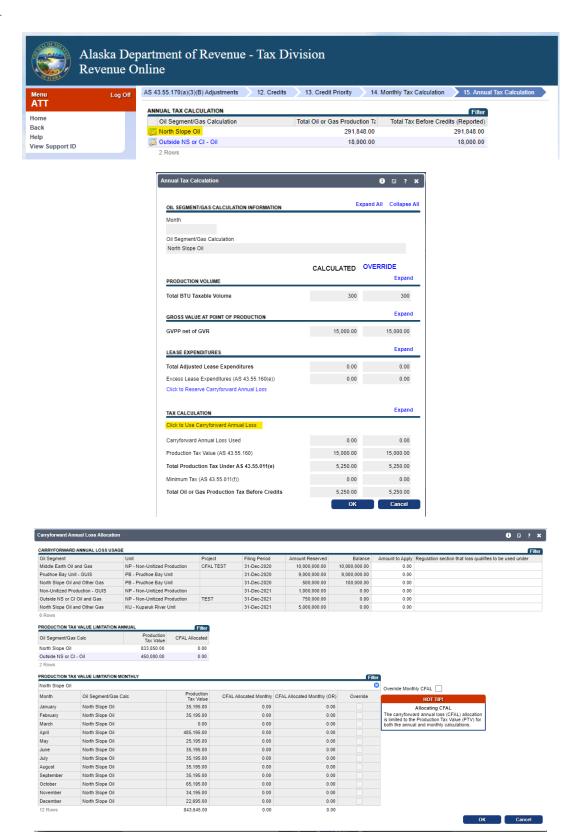
CFAL Usage for 2022 Annual Return and Later Filing Periods:

Beginning January 1, 2022, gas production does not have a PTV and is taxed at 13% of the gas production's gross value at point of production ("GVPP") under AS 43.55.011(e)(3)(b). Any reserved CFALs from 2018 through 2021 for North Slope GUIS segments can be applied to the North Slope Oil segment's PTV for periods 2022 and later.

1. To use reserved CFALs toward a segment's monthly or annual PTV, the taxpayer will select the "Click to Use Carryforward Annual Loss" hyperlink below the "Tax Calculation" section of the segment's "Monthly Tax Calculation" or "Annual Tax Calculation" window. Note the hyperlink in the monthly and annual windows link to the same CFAL usage table.



OR



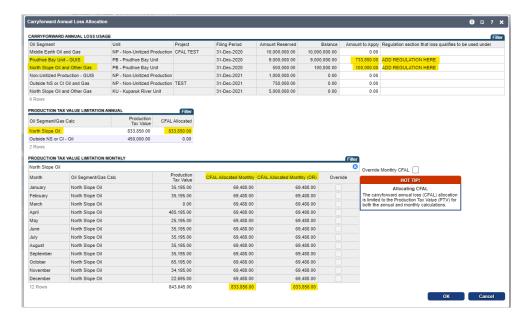
2. The "Carryforward Annual Loss Allocation" window for filing periods 2022 and later has three sections: "Carryforward Annual Loss Usage" ("CFAL Usage"), "Production Tax Value

Limitation Annual" ("PTV Limitation Annual"), and "Production Tax Value Limitation Monthly" ("PTV Limitation Monthly").

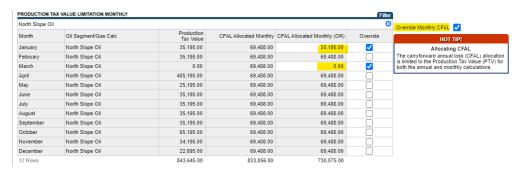
- a. The CFAL Usage table lists all reserved CFALs that may be used in the current filing period. In the example shown, the "Balance" of the reserved CFALs in rows 4 through 6 have a \$0.00 balance and the balance of the 2020 period North Slope Oil and Other Gas reserved CFAL is only \$100,000, which reflects the \$400,000 CFAL used in the 2021 period.
- b. The PTV Limitation Annual table lists each segment's annual PTV and the amount of CFAL the taxpayer would like to apply towards that segment's PTV (as described in Step 3 below).
- c. The PTV Limitation Monthly table is new for 2022 and later filing periods. This table allows the taxpayer to allocate 1/12 of their annual CFAL usage to the monthly tax calculation. The table pre-populates all twelve months for each segment listed in the PTV Limitation Annual table. To simplify these instructions, the table has been filtered in the screenshots to only include "North Slope Oil" segments, which limits the rows to only 12 months instead of 24 months if the "Outside NS or CI Oil" segment was included. There are two columns where the 1/12 CFAL allocation is provided: "CFAL Allocated Monthly" and "CFAL Allocated Monthly (OR)." The taxpayer can override their monthly CFAL allocation by selecting the "Override Monthly CFAL" checkbox to the right of the PTV Limitation Monthly table and above the "Hot Tip." The Override functionality throughout the entire OGP return is to allow the taxpayer flexibility to submit what they believe is the correct amount to tax due.
- 3. To apply a CFAL from the CFAL Usage table, enter a value in the "Amount to Apply" field. Then, enter the regulation section in which the CFAL qualifies.
 - a. Note the CFAL's "Amount to Apply" is limited to the CFAL's "Balance" (provided in the CFAL Usage table) and the segment's annual PTV.



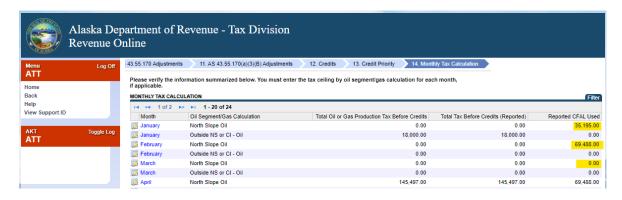
b. In the example below, \$733,850 of the CFAL reserved from the 2020 filing period's Prudhoe Bay Unit – GUIS and \$100,000 of the CFAL reserved from the 2020 filing period's North Slope Oil and Other Gas segments are selected to apply towards the North Slope Oil segment's PTV for this 2022 return. As the "Amount to Apply" value is added, the PTV Limitation Annual table updates to reflect the "CFAL Allocation." Then, the value of the annual "CFAL Allocated" is then divided by 12 and applied to each segment's monthly PTV in the PTV Limitation Monthly table.



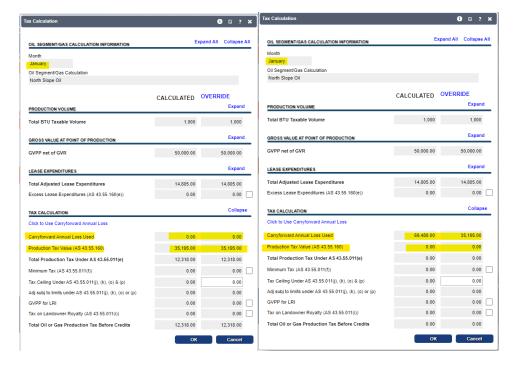
c. To override the "CFAL Allocated Monthly (OR)" column, select the "Override Monthly CFAL" checkbox. This opens the override checkboxes under the "Override" column.



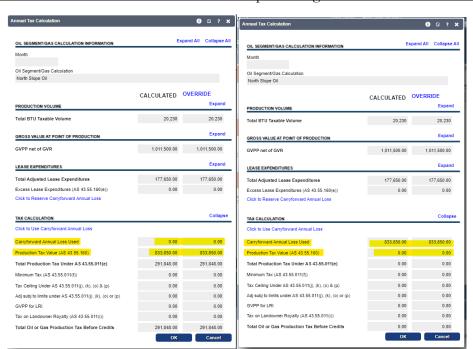
- d. Although a few of the "CFAL Allocated Monthly (OR)" amounts are greater than the monthly segment's PTV, once the CFAL is allocated to the monthly tax calculation, the PTV is still limited and cannot go below zero.
- 4. Once the CFAL Usage table has been completed, select "OK" to close the window. In the monthly and annual segment's Tax Calculation windows, the "Carryforward Annual Loss Used" field updates to equal the amount of CFAL applied from the CFAL Usage table. The "Monthly Tax Calculation" (Tab 14) table includes a "Reported CFAL Used" column that pulls the "CFAL Allocated Monthly" (calculated or overridden) amount from the CFAL Usage table.



Before and After CFAL is Allocated to the North Slope Oil Segment's Monthly Tax Calculation:

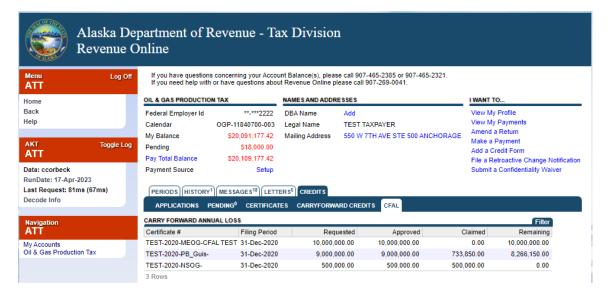


Before and After CFAL is Allocated to the North Slope Oil Segment's Annual Tax Calculation:



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a. Once the 2022 annual return is filed, the CFAL table within the OGP > Credits > CFAL tab will update to reflect the \$100,000 usage ("Claimed") of the 2020 North Slope Oil and Other Gas (\$400,000 used in 2021 and \$100,000 used in 2022) and \$733,850 usage of the 2020 Prudhoe Bay Unit – GUIS segment reserved CFALs.



If you have any questions or feedback about the return or this process, please contact us at dor.tax.production@alaska.gov. This the OGP group's email address distributed to multiple employees to ensure that your question is answered timely.